Postal Regulatory Commission
Submitted 2/9/2012 4:07:25 PM
Filing ID: 80418
Accepted 2/9/2012

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO NPMHU INTERROGATORIES NPMHU/USPS-T10-1-4, 6-11, AND 15-18
(February 9, 2012)

The United States Postal Service hereby provides the responses of Witness Michael Bradley to the above-listed interrogatories of the National Postal Mail Handlers Union. Each interrogatory is stated verbatim and followed by the response. Interrogatories NPMHU/USPS-T10-5 and 12-14 have been redirected to Witness Marc Smith.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 9, 2012

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-1

On page 2 of your testimony, you state that in your "costing exercise", "the volume of mail being sorted and transported is held constant." Please explain the effect on your calculations: (a) if the volume of mail decreases by 10 billion pieces in 2012, as predicted by witness Masse, see USPS-T-2 at 1; and (b) the volume of mail decreases by an additional 2.9 billion pieces, as predicted by witness Whiteman (USPS-T-12) as a result of loss of market share due to decreased service standards.

RESPONSE:

To understand the implications on costs of the proposed change in service standards and the resulting network realignment, it is important to control for all other possible variations in cost. Otherwise, one runs the risk of contaminating the calculated cost change with changes in cost that occur for other reasons. Consequently, the costing exercise focuses on just the operational changes for a given level of volume. As such, it is not an exercise in forecasting what the actual costs will be in 2012 under the realigned network. This issue was explained by witness Colvin in the five-day delivery case:[1]

> My testimony seeks to compare the FY2009 operating environment under six-day delivery to what the FY2009 operating environment would have been under 5-day delivery, given the changes in operations, and resulting savings in hours, that would, in general, have been made under the 5-day approach. To do so accurately requires holding constant all other possible changes in that operating environment. In this way, the specific impact of the decision to reduce delivery to 5 days, without the confounding influence of other factors, can be traced

Thus, on one level, the forecasts of witness Masse for FY2012 have no bearing on my calculations, as those calculations are not contemplating a change in cost for that year.

[1] See, "Response of Postal Service Witness Colvin to APWU Interrogatories, APWU/USPS-T7-1-3," Docket No. N2010-1, at 2.

However, one could interpret this question as asking how my calculations would be affected by a shift to a projected FY2012 basis as opposed to a FY2010 basis. Witness Colvin was asked a similar question in the five-day case, and his answer is instructive:[2]

> To determine the cost savings in FY 2011 or FY2012 one would need to construct baseline costs for FY2011 or FY2012, review the operational responses to five-day delivery in the FY2011 or FY2012 operating environment, and calculate the cost impacts of those operational changes. It would be important to account for all changes in the operating environment including forecasts of future volumes, operational procedures, and wages. Some of these factors leading to cost savings might not only be different in the future, but might influence the outcome in offsetting ways. It may be supposed that some future change in operations would reduce the amount of savings available. However, such changes could be offset by changes in wages, which would increase the savings.

The volume decline predicted by witness Whiteman is a different matter, because it is assumed to flow from the same change in service standards that instigated the estimated cost changes. It could be thus considered in the context of analyzing the costs implications of the proposed change in service standards and the resulting network realignment. The effect of accounting for the volume decline predicted by witness Whiteman would be to increase the estimated cost savings. In addition to the cost savings already calculated, the Postal Service would save cost because it is handling less volume. In this sense, my estimated cost savings understate the true cost savings. It is my understanding, however, that witness Whiteman attempts to account for this cost saving in his testimony.

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[2] Id. at 3.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-2

Please confirm that your use of the term “inactive sites” at pages 9-10 of your testimony refers to those facilities for which an AMP study has already been approved, together with those facilities for which an AMP study was ongoing as of September 16, 2011. If not confirmed, please explain that term.

RESPONSE:

Not confirmed. My use of the term “inactive sites” refers to facilities that are not expected to be processing mail in the realigned mail processing network as defined by witness Rosenberg. Please note that her list of active and inactive sites is presented in Library Reference USPS-LR-N2012-1/34.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-3

Please confirm that you calculations of estimated savings are completely independent on any savings calculations made for specific facility consolidations through the AMP feasibility study process. If not confirmed, please explain how your calculations relate to the savings calculations made for specific facility consolidations.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-4

Please confirm that your productivity calculations do not incorporate facility-specific productivity data. If not confirmed, please explain how the facility-specific data factors into your calculations.

RESPONSE:

Please note that I do not make any productivity calculations. Instead, I make cost savings calculations based upon the productivity calculations done by witness Neri. However, I can confirm that my cost savings calculations do not incorporate facility specific productivity measures.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-6

Please confirm that your testimony does not account for increased costs in HCR transportation that may arise if contractors raise the per mile price charges to the Postal Service. If not confirmed, please identify where your estimates account for this possibility.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-7

Referring to Table 16 in your testimony, please explain the differences between, and relationship among, the savings achieved through workload transfer; that achieved through productivity gains; and that achieved through each category of workload reduction cost changes.

RESPONSE:

The savings achieved through workload transfer, productivity gains, and workload reductions all are associated with the operational changes induced by the change in service standards, as described by the operations witnesses in this case. The three types of cost changes mentioned in the question differ in their sources of the cost change. For workload transfers, the cost savings come from the fact the Postal Service will be transferring workload from a larger number of facilities to a smaller number of facilities. This means that it will be sorting the mail at a smaller number of locations across the country. In other words, within each mail processing technology, (e.g. Delivery Barcode Sorter(DBCS), Small Parcel and Bundle Sorter (SPBS), Cancelling) the Postal Service will be reducing the number of places at which and the amount of equipment on which operations are run. This leads to the cost savings from workload transfer.

In addition, the change in service standards will allow the Postal Service to run its mail processing operations longer. My understanding is that not only will this permit a reduction in the number of locations at which the operations are run, but also it will permit a better utilization of both machine and labor resources within those operations. As explained by witness Neri, a smoother workflow will allow the Postal Service will have fewer “stops and starts,” less waiting for volume to process, and a better utilization

of mail processing labor[3] This better utilization implies that labor productivity will increase in certain mail processing operations and this leads the cost savings from productivity increases.

Finally, the cost changes from workload reduction are calculated by witness Smith and are incorporated into my testimony solely for the purpose of cumulating the overall change in cost. For a full discussion of their causes please see Section VII of his testimony.[4]

[3] See, "Direct Testimony Frank Neri on Behalf of the United States Postal Service," Docket No. N2012-1, USPS-T-4, at Section VIII.

[4] See, "Direct Testimony Marc Smith on Behalf of the United States Postal Service," Docket No. N2012-1, USPS-T-9, at 21. You may also find it useful to review "Response of Witness Smith to APWU/USPS-T9-4" in this docket which explains how witness Smith's cost saving calculations relate to my cost saving calculations.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-8

Referring to Table 16 in your testimony, are the savings achieved through workload transfer; that achieved through productivity gains; and that achieved through each category of workload reduction cost changes all achieved through the elimination of workhours by Postal employees? If not, please explain what portion of these savings are not achieved in that manner, and explain how they are achieved.

RESPONSE:

Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-9

For that portion of the savings calculations you have made that depend on savings in labor costs other than decrease of premium pay, please provide specific calculations that show estimated reductions in work hours by craft.

RESPONSE:

As explained on page 5 of my testimony, baseline for calculating cost changes is the Postal Regulatory Commission's set of Mail Processing Cost Pools for MODS offices excluding Network Distribution Centers (NDCs) and International Service Centers (ISCs) for FY 2010. The Postal Regulatory Commission does not differentiate these cost pools by craft so I did not perform any specific calculations of work hour reductions by craft.

However, I understand that the Postal Service did provide a calculation of the change in FTEs by craft, consistent with my calculated cost savings in its response to PR-USPS-T8-1:[5]

> In response to each part ii, below, we have provided the amount of FTEs consistent with the savings put forth in the testimonies of witnesses Smith, USPS-T-9, and Bradley, USPS-T-10. As such, FTEs in this context do not equate to the number of staff to be "eliminated". It is the FTE reductions consistent with the savings.

[5] See, "Institutional Responses Of The United States Postal Service To Public Representatives First Set Of Interrogatories And Requests For Production, Redirected From Postal Service Witness Rachel (PR/USPS-T8-1-3) At 2."

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-10

Please explain the effect on your calculations if the ongoing AMP studies determine that one or more of the proposed consolidations are infeasible.

RESPONSE:

The outcomes of the AMP studies have no impact on my calculations as they are not dependent upon AMP studies for their basis. However, if AMP studies or any other reason caused the Postal Service to redefine the list of active and inactive sites, that redefinition could affect my estimated cost savings of $82.6 million from workload transfer, of $48.7 million from in-plant support reductions, and of $18 million from plant manger reductions. If for any reason the number of facilities expected to be inactive in the realigned network was reduced, then these estimated cost savings would also be reduced.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-11

Please explain how your calculations are related to the estimates of required staffing that will be contained in the ongoing AMP studies, including in your answer how your calculations account for the Postal Service's planned staffing requirements at each processing facility that the Postal Service intends to keep open.

RESPONSE:

To my knowledge, my calculations are not related in any way to the ongoing AMP studies. I say that because the calculations you refer to were performed without reference to any AMP studies.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-15

Please provide the data to support the average per mile HCR cost of $2.05 as stated on page 36 of your testimony, including in your answer the total expenditure made by the USPS for HCR services in FY2010 and the total HCR miles driven in FY2010.

RESPONSE:

As explained in my testimony, these data are provided in Library Reference USPS-LR-N2010-1/22, Calculation of Highway Transportation Cost Changes. Also, please note that I do not use the overall HCR cost per mile but rather the Intra-P&DC cost per mile:[6]

> The average cost per mile was calculated by dividing the sum of Intra-P&DC accrued costs by the miles driven on the contracts in that account. See, Library Reference USPS-LR-N2012-1/22.

The following table presents the calculation that is done in the library reference including both the total expenditure for P&DC services and the total miles driven for that account:

Intra-P&DC HCR Cost Per Mile

Intra-P&DC Cost	$991,781,030
Intra-P&DC Miles	484,191,416
Cost Per Mile	$2.05

[6] See, "Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service," Docket No. N2012-1,USPS-T10 at 36

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-16

Please confirm that, as devices for calculating the marginal change in cost caused by changes in capacity or workload, the variability coefficients used in Tables 1, 12, and 15 of your testimony do not remain constant if overall cost, workload, or capacity figures change significantly.

RESPONSE:

Whether or not the variability coefficients, as devices for calculating marginal costs, remain constant in the face of "significant" changes in overall cost, workload, or capacity depends upon a number of factors. The first factor is the functional form of the model or equation in which the variability coefficient is embedded. If the functional form is what is known as the "constant elasticity form," then the variability will remain the same when workload or capacity changes. Other functional forms, such as linear, will lead to changes in the variability coefficients as volume or capacity changes. A second factor that must be considered is the reason for the overall cost or workload change. If for example, there is a significant increase in overall cost because of a significant increase in wages, then the variability coefficient, regardless of functional form is likely to remain constant. A third factor is how big the "significant" change in capacity or workload is. The key issue here is whether or not the change in workload or capacity is sufficiently large so as to alter the underlying cost generating process. If so, it could lead to a change in variability even if the equation in which the coefficient is embodied is a constant elasticity form. This is because such a large change could lead to either a change in the functional form or a change in the parameters that populate that form.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-17

Please confirm that you did not test or independently calculate the estimations made by witness Martin regarding capacity reduction that would result from the MNPR, and which you used in your calculations.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO NPMHU INTERROGATORY

NPMHU/USPS-T10-18

Please explain why type of costs are included as non-volume variable costs in your calculations. For instance, is the time associated with setting up and breaking down a machine considered a volume variable cost, or an institutional, non-volume variable cost?

RESPONSE:

Costs are included as non-volume variable in my calculations because that is how they are designated by the Postal Regulatory Commission's methodology for attributing mail processing labor costs. For a description of how the Commission's method determines non-volume variable costs please see, United States Postal Service, "Summary Description Of USPS Development Of Costs by Segments And Components, Fiscal Year 2010" at 3-6. I am informed that the time associated with setting up and breaking down a machine is considered to be a volume variable cost.